

**SEN'S CAPABILITY APPROACH:  
A CRITICAL APPRAISAL**

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**by**

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## **ABSTRAK**

Kertas ini memperdebatkan bahawa pendekatan kebolehan Sen boleh diperkukuhkan jikalau elemen institusi ditambahkan secara eksplisit. Pendekatan kebolehan Sen telah mengiktiraf peranan institusi dalam menghadkan kebolehan individu, tetapi ianya dibuat secara sekali imbas. Maka kita menghadapi kelemahan ini dengan meletakkan masalah kebolehan didalam konteks institusi.

Pendekatan institusi yang kita cadangkan memberi kepentingan kepada pengetahuan dan pembelajaran. Terdapat dua sebab untuk ini: satu, kedua-dua elemen ini penting untuk memahami kebolehan individu, dan dua, ia adalah sebahagian daripada proses untuk menghadapi institusi terbatas. Didalam lingkungan ini “path dependence” diperkenalkan.

Thesis ini selanjutnya dirangka atas menganalisa “path dependence”, dan menerangkan bagaimana institusi “path dependent” boleh menghadkan perkembangan kebolehan, dan akhir sekali kita menjelaskan bagaimana institusi “path dependent” boleh mengatasi kelemahan mereka melalui pertalian atau formasi ‘network’. Akhir sekali, cadangan yang disyorkan didemonstrasi dengan menganalisa kajian kes dimana institusi ‘path dependent’ dapat diatasi dengan membentuk pertalian. Kesahihan rangka thesis yang telah kita bentukkan boleh dinampak dengan mengaplikasikannya untuk menganalisa konsep ‘social exclusion’.

## **ABSTRACT**

This thesis argues that Sen's capability approach can be strengthened by explicitly incorporating institutions. Sen's capability approach acknowledges the role of institutions in limiting the capabilities of individuals, but does not provide more than a passing mention of institutions. Accordingly, we address this shortcoming by attempting to frame the problem of capabilities within the context of institutions.

The institutional approach that we propose ascribes a crucial role to knowledge and learning for two reasons: one, they are essential for understanding the capability context of individuals; and, two, they are part of the process of overcoming restrictive institutions. It is within these boundaries that the notion of path dependence is introduced.

The rest of the thesis is built on analysing path dependence, describing how path dependent institutions can constrain the flowering of capabilities, and, finally, explaining how path dependent institutions can be overcome through connections or network formation. The validity of the framework that we have developed is also shown by employing it to analyse the concept of social exclusion. Finally, the applicability of the proposed line of reasoning is demonstrated by analysing case studies where path dependent institutions are overcome through the formation of connections.

# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND

Sen's capability approach signals a major event in recent thinking on welfare economics. With his intellectual leadership in developing the Human Development Index<sup>1</sup> and, subsequently, the publication of *Freedom as Development*<sup>2</sup>, the capability approach shows signs of emerging as an important theoretical framework. The ramifications of his thinking are profound and they open substantial avenues for research and intellectual debate, both at the conceptual and empirical levels. Indeed, the import of Sen's thinking has been substantial enough to attract the attention of philosophers, political scientists and sociologists, besides significantly influencing economists and makers of economic policy<sup>3</sup>.

Amidst the flurry of excitement that surrounds Sen's work, there is one aspect of his work that lies in neglect: the institutional aspect. This is surprising and at once understandable. Sen's roots are within the tradition of social choice

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<sup>1</sup> The United Nations Development Programme (UNDP) began publishing the *Human Development Reports* in 1990 under the leadership of Mahbub ul Haq, with A.K. Sen assuming an advisory role.

<sup>2</sup> Sen, A. (2000), *Development as Freedom*, New Delhi: Oxford University Press and New York: Alfred A. Knopf)

<sup>3</sup> As a small sample one can mention Martha Nussbaum, Richard Arneson, G.A. Cohen, Ronald Dworkin and Andrew Williams.



theory<sup>4</sup> but in his work on capabilities he places himself at the intersection of welfare economics and ethics<sup>5</sup>. Viewed in this context it is understandable that Sen should be concerned with the freedom and the broader considerations of well-being. However, Sen's work has deeper foundations: he draws on Aristotle and returns to some of the issues that political economists such as Adam Smith grappled with. In taking this turn, naturally enough, Sen touches on institutions; and, yet, he does no more than broach upon so important an issue as institutions. It is surprising that as a political economist and philosopher, much in the style of Smith and Marx<sup>6</sup>, Sen does no more than mention the importance of institutions incidentally. It is also surprising that Sen has largely ignored institutions, despite the renewed interest in institutional economics these days. It is not as if he wants to wish away the role of institutions, it is only he does not accord it the importance that it deserves.

It is my view that the capability approach can be enriched by the recent resurgence in institutional economics<sup>7</sup>. I would argue that by doing so the capability approach can be strengthened. If the institutional aspect, which is so carelessly left at the margins of Sen's work, were to be granted more

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<sup>4</sup> Social choice theory is concerned with evaluating states of affairs and characterising what they mean from the social point of view in general. Kenneth Arrow's (1963) classic *Social Choice and Individual Values*, New York: Wiley is the basis of much of social choice theory; and Sen has questioned some of the problematic features of Arrow's work. One criticism centres around the informational parsimony required by Arrow.

<sup>5</sup> Sen's (1987), *On Ethics and Economics*, Oxford and New Delhi: Oxford University Press is an outstanding example of such interdisciplinary thinking.

<sup>6</sup> Like Smith and Marx, Sen is not exclusively concerned with functioning of the economy; Sen seeks to accommodate the interplay of ethics. In his *On Ethics and Economics*, Sen (1987: 6) writes: "I would like to argue that the deep questions raised by the ethics-related view of motivation and of social achievement must find an important place in modern economics, but at the same time it is impossible to deny that the engineering approach has much to offer to economics as well."

<sup>7</sup> Buchanan and Tullock (1962), North (1990), Eggertsson (1990) and Hodgson (1988,1999), for instance, can be credited with the revived interest in institutions.

emphasis, it would provide the capability approach with wider reach, establishing it as a powerful framework for analysis in the social sciences. This seems to be a natural sequel to Sen's work on capabilities since restrictions to capabilities are so often the consequence of institutions. In particular, if capability deprivation is the result of inappropriate institutions, then these institutions can be reformed to ameliorate the negative effects of such deprivation. Indeed, the capability approach has policy implications that can be more fully exploited if the institutional basis for capabilities is better understood.

Recent thinking in institutional economics invites application to the capability approach. North (1990), for instance, has driven the point that *institutions matter* in an extremely persuasive manner; but the contributions of the transaction cost economists cannot be denied either. While the varying strands to institutional economics can be intimidating<sup>8</sup>, there is no doubt that this field has much to offer in terms of developing a basis for the capability approach. The fact that institutions are the ground for policy making reaffirms the need to locate the capability approach on a firm conceptual framework.

## **1.2 RESEARCH PROBLEM AND FOCUS**

The capability approach is the crystallisation of Sen's deep engagement with welfare economics and ethics. Sen's discomfort with utilitarianism as a metric for discussion on social justice spells a need to explore alternative criteria for the evaluation of social states<sup>9</sup>. In Sen's view, utilitarianism does not

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<sup>8</sup> See for instance, Knight (1992: Chapter 4), Rutherford (1994), and Hodgson (1998)

<sup>9</sup> See Sen, *Inequality Reexamined* (1992) and *Development as Freedom* (2000:63-63)

adequately distinguish between welfarism, sum-ranking and act consequentialism, thus, motivating him to seek a more appropriate criterion<sup>10</sup>.

Obviously enough, Sen motivates his dissatisfaction with standard utilitarianism within the context of inequality. He dismisses the undue importance that is placed on income in evaluating dispersions of inequality. To his mind there are several important factors in discussing inequality and deprivation that are frequently overlooked. First, too much importance is accorded to income; and this undue slant has to be corrected<sup>11</sup>. Second, a wider variety of informational sources have to be considered, rather to restrict one's attention on income as the sole source of information. Third, it is not just a question of the deprivation of commodities or income that characterises the lack of well-being. Rather, Sen has reiterated that opportunities, choices and freedom are no less important than the lack of income for the deprived, the poor and the socially excluded<sup>12</sup>.

The capability approach is Sen's response to these daunting questions. In declaring the capability approach, Sen attempts to cast his net wider and include issues such as self-esteem and social respect<sup>13</sup>. But more than that,

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<sup>10</sup> Sen (1985), "Well-Being, Agency and Freedom: The Dewey Lectures 1984," *Journal of Philosophy*, Vol. 82

<sup>11</sup> This criticism is in line with Sen's attempt to correct the informational parsimony that afflicts modern economics, particularly when it comes to studies on poverty and deprivation.

<sup>12</sup> Indeed, freedom is an important aspect of Sen's work and he has pressed the distinction between *achievements* and the *freedom* to achieve (Sen, 1992:31). Further, Sen, like Berlin (1958:7-19) conceives of freedom both as "positive freedom" and "negative freedom". More significantly, Sen (1999:36) sees freedom both as a *primary end* and as the *principal means* of development (emphasis in original).

<sup>13</sup> In doing this Sen restores to economics similar concerns that were shared by Adam Smith (see Sen, 1979, Jensen, 2001). The latter besides being concerned with economic exchange was also sensitive to ethical considerations, a point that has influenced Sen's capability approach (see Sen, 1987:28).

the capability approach attempts to answer the question as to what activities make a person truly human<sup>14</sup>. Although Sen does not ultimately provide a list of such activities, he does provide a line of reasoning that might enable us to develop such a list<sup>15</sup>. Without attempting to define capabilities at this stage, I would say that Sen's capability approach stresses the choices that people can exert over the manner in which they choose to function in their lives. Broadly, this means that an individual has a set of functionings at his disposal, from which he chooses a particular set to lead the life that he values. This approach, patently, includes notions of choice, opportunity and respect within its radius. Needless to say, Sen's approach encompasses a number of crucial issues within economics and philosophy; but my aims are more modest.

The purpose of my thesis is to argue that Sen's capability approach can benefit from a consideration of institutions. I propose that Sen's understanding of capabilities employs the notion of institutions and can, actually, benefit from a more careful incorporation of institutions. I intend to point out that Sen does not adequately address the question of institutions, particularly when the flowering of capabilities is restricted by institutions. Principally, I wish to argue that the discourse on capabilities can be strengthened by including an institutional perspective, which I perceive as being important to the core of the capabilities agenda.

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<sup>14</sup> In asking what it is that makes a person truly human, Sen associates the capability approach within the domain of Aristotelian philosophy, a turn that he consciously takes.

<sup>15</sup> By not providing such a list Sen invites criticism. However, Nussbaum (1999:41-42) does provide a list of capabilities. Sen defends not providing a list by arguing that any such list must be democratically decided (Nussbaum, 2003).

Having argued that the capability approach can gain tremendously from an institutional analysis, the problem, then, is to demonstrate how institutions can be incorporated. Central to Sen's project is the underlying notion that capability deprivation results in the loss of ability for deprived individuals to do and be as they choose. Part of my research problem, therefore, is to argue that by basing the capability approach within the framework of institutions it is possible to build a conceptual apparatus that can explain restrictions to capabilities and demonstrate how institutions can be utilised to reduce the constraints on capabilities.

Broadly speaking, the thesis will argue that it is necessary to adopt a framework that is based on institutions. Since Sen does not devote much attention to institutions or their mechanics - besides noting that they have a role to play - my task will be to argue that the institutional structure of an economy cannot be ignored. I shall argue that there are circumstances under which there are configurations of institutions that constraint capability achievement. I address this by providing a theoretical basis for the functioning of institutions, then proceed to explain the nature of such capability constraining institutions, and finally suggest how they can be improved.

### **1.3 RESEARCH QUESTIONS**

I wish to address Sen's lack of attention to the question of institutions. In grappling with this problem the main questions that I shall attempt to answer include the following:

- What role do institutions play in the capability approach?

- How can the persistence of capability-constraining institutions be explained?
- What can be done to relax path dependent institutions?
- What role, if any, does learning have in the process of lifting capability constraints and achieving an improvement in capabilities?
- How can institutions be utilized to reduce the constraints on capabilities?

The above-mentioned questions will frame the limits of my thesis and guide the development of my arguments. It should be immediately obvious that the questions I have posed need to be carefully considered if this thesis is to be able to accord institutions the centrality that I claim it deserves. The starting point, of course, is to establish the relevance of institutions to the capability approach. It is also necessary to point out the relationship between institutions and the capability approach. Assuming there is a close relationship between institutions and capabilities, it will then be necessary to limit the scope of one's study.

I maintain that it is crucial to concentrate one's focus on addressing how institutions act as constraints to the enjoyment of capabilities. As Sen along with others are aware, institutions can take many forms to constrain the capabilities of individuals. These imperfect and inefficient institutions can curtail the capabilities of individuals and restrict their access to education, credit, health, and more deeply, deprive them of the right to be and do as they choose. It is, thus, necessary to describe and explain how institutions that are unhelpful can persist to the detriment of individuals.

Against this setting, it is then necessary to take the next step to explain how deprived individuals can relax the constraints that limit their capabilities. Sen does not take this turn; and I would suggest that this could be done within an institutional framework. The question of how constraints to capabilities can be removed is an important one and needs to be answered; because if not attended, institutional constraints will be taken as a given and we shall have no insight into the dynamics of how they can be lifted.

Several questions immediately come to mind when one talks of institutions and institutional change. One, for instance, would be interested in understanding why some constraints can be persistent, in spite of their inefficiency. In particular, one would be interested to know if learning has any role at all to play in this entire scheme since disadvantaged rational individuals might want to respond proactively to their constraints. The rationale for choosing learning over other possible instruments is because it is through learning that individuals can cognise their external environment. Second, I would like to conceive of individuals as participants in an economy, who react and respond to situations as a consequence of the learning process. While capabilities can be improved through the passive receipt of programmes that improve health and education, a more interesting model would incorporate the active participation of individuals, and this can take place only through learning. Thirdly, even if capabilities like health care and education are offered, they may not be *effectively* available to individuals, unless through learning they can *actually* access them.

## 1.4 RESEARCH APPROACH

My research approach is largely conceptual and theoretical. This seems inevitable since I am examining Sen's thinking on the capability approach - itself a framework that is theoretical, and with Aristotelian underpinnings - not with the intention of operationalising it for empirical purposes, but with the intention of examining its conceptual robustness. What I seek to accomplish is conceptual, in so far as my objective is to demonstrate that the capability approach could benefit from an institutional basis.

The approach that I, therefore, take is to point out how institutions can be added to support Sen's capability framework. I shall indicate areas in which the notion of institutions can be profitably added. I seek to point out the possible contexts in which institutions can occur and how they can impede the growth of capabilities. I, then, shall proceed to develop a model to explain the institutional character of connections that can be formed among mutually disadvantaged individuals with the intention of overcoming their capability deprivation. I point out the role of external agents in this process.

I intend to establish my argument favouring connections among those who have constrained capabilities on the grounds that through such connections it is possible to overcome the restrictions they face in expanding their capabilities. Given this focus, empirical measurements do not come into the picture<sup>16</sup>. Any

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<sup>16</sup> Examples of attempts at converting Sen's capability approach into a quantifiable framework include Balestrino and Sciclone (2001) and Martinetti (1996, 2000). However, these studies make no attempt to argue at a conceptual level for the incorporation of institutions within the capability approach.



quantification is beyond our present scope, since our main interest is in clarifying the need for an institutional perspective and in developing a conceptual framework that can support the use of institutions.

## **1.5 METHODOLOGY**

Methodologically, I could take two approaches to my research problem. I could take a more political approach that is based on classes, or I could view the problem from the perspective of the individual. The earlier approach stressing the antagonistic relations among the classes would amount to a Marxist critique of Sen's work. This does not seem an appropriate approach to me because some of Sen's concerns are not particularly class-related. Another factor that dissuades me from taking a political approach is because I do not want to place the state at the centre my analysis, not because the state is not relevant, but because any analysis that considers as the primary agent invites a different set of problems. Addressing the political economy of the state would imply broadening the scope of my study far beyond what I am prepared to do at present.

I would prefer to adopt methodological individualism<sup>17</sup> as the starting point, aware as I am of the criticisms that it is subject to. At any rate, I favour it because it is in consonance with Sen's approach that stresses freedom and choice. To adopt a methodology that goes against Sen's position would require a more radical critique of this position, something that I do not want to concern myself with in the present study. Again, my concerns are narrower. Presuming

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<sup>17</sup> See Lukes (1968) for an account of methodological individualism.

one accepts Sen's emphasis on the individual I posit that it is still possible to incorporate a vital role for institutions. It is along these lines that I propose to argue. I shall seek to argue that it is possible to demonstrate the flawed nature of Sen's work on his own grounds; and to offer a broader framework that attends to institutions without ignoring individual freedom, and, yet, permits individuals to form networks.

Nevertheless, I am aware of some of the criticisms that I am likely to be up against. Among the objections would be the contention that methodological individualism is too unrealistic an assumption and ignores political and historical forces. It could also be argued that my assumptions do not take account of the class nature of society. Finally, needless to say, by adopting individualism as the preferred standpoint, I am ignoring – but not completely – the fact that an individual is formed by society and all its processes and, instead, assume that an individual is a rational, utility-maximising economic agent<sup>18</sup>. To a large extent I am able to ward off this criticism because I take note that the links that are formed between individuals are guided by the institutions that prevail in an economy<sup>19</sup>. But I must admit to espousing the view that the individual is partial to economic rationalism. This methodological position influences my attempt to locate Sen's approach within the institutionalist framework. It will surface in the way that I model the

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<sup>18</sup> See Hodgson (1988) for an account of methodological individualism in relation to economics. Rutherford (1994) summarises methodological individualism as being constituted by three statements: 1) only individuals have aims and interests, 2) changes to the social system are the consequence of individual actions, and 3) sociological phenomena can be explained by theories that refer to individuals, their preferences, resources and beliefs

<sup>19</sup> Following Hodgson (1988:71), I do not see the socio-economic environment as the sole determinant of individual behaviour, neither do I hold that social phenomena are entirely explicable in terms of individual conduct. I hold the view that "the socio-economic and

disadvantaged economic agent and how he attempts to form connections in order to overcome the restrictions to the enhancement of capabilities. I say this because I shall implicitly assume that the individual is an agent who seeks to maximise his utility while minimising costs.

My defence for adopting methodological individualism is based on the rationale that it is simple and flexible enough to be used to model a variety of situations. Of course, I shall attempt to explain how an agent deprived of a certain capability will be driven to develop institutions to overcome this shortcoming. The assumptions that accompany economic rationalism will also be invoked in explain how connections are formed among mutually disadvantaged individuals to form networks with the purpose of surpassing their capability constraints. Although I do not undertake the task of explaining political change, I believe my model can be extended to do so. Likewise, although I do not bring in revolutions or protest movements that are initiated to bring about the improvement of capabilities for target groups, I believe that my framework can easily be extended in those directions.

As is clear, my main objective is to draw attention to the need for an explicit institutional framework that can provide an account of how capabilities can be constrained and what can be done to overcome these constraints. Although the primary concern is conceptual, it will be necessary for me to draw on a small number of case studies. I shall do this in order to demonstrate that my

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institutional environment has a significant effect on the kind of information we receive, our

framework can be used to talk about real-life attempts to overcome capability constraints.

There are two crucial issues that I want to draw attention to in my thesis. The first is to offer an institutional explanation for the persistence of constraints to capabilities. The second is on a possible institutional mechanism to obtain relief from capability constraints. In keeping with these issues, the case studies that I select will have to demonstrate that it is possible to form networks that will alleviate capability constraints that have been persistent. Consequently, I should be able to demonstrate using the case studies that I shall select that it is possible to provide an analysis that is based on an institutional framework for persistent capability constraints. Equally, from my analysis of the case studies it should be possible to demonstrate that an institutional perspective can contribute to the formation of networks for the improvement of capabilities.

## **1.6 CONTRIBUTIONS AND LIMITATIONS**

I believe that my thesis will make contributions both at the theoretical, methodological and policy levels. In the first instance, as mentioned earlier, this study is an attempt to supplant Sen's capability approach with an institutional framework. Sen's work on capabilities does not have the power to directly address questions relating to institutions, neither is it able to provide insight on the mechanics of how capabilities can be improved from the point of view of institutional change. These have not been Sen's concerns; but they are in need of development. These limitations are remedied by my framework,

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cognition of it, or preferences, and thereby much of our behaviour.”

which relocates the capability approach within the context of institutions. Thus, in developing my framework I shall be able to add a deeper explanatory dimension to Sen's work. I shall be able to do this by posing some of the questions that Sen does not, the answers to which are cannot be obtained under the existing framework.

The capability approach is not able to explain at a general level why capabilities are restricted because of institutions, what can be done to improve them, and what role, if any, learning has in the whole process. By directly focusing on institutions I expect to be able to address these issues.

My conceptual work will be able to enlarge Sen's capability approach and to make it a theoretical construct that can analyse and discuss issues where individuals and institutions are involved. There are various directions in which my efforts can be taken. Some of the issues that can fall within the scope of the enlarged agenda would possibly include topics such as social capital, participation, empowerment and social exclusion. I shall attempt, merely for illustrative purposes, to look at social exclusion at a later part in this thesis from the angle of my proposed framework.

Methodologically, my thesis will attempt to offer innovative uses of institutional analysis. This is because I shall seek to develop a framework for the analysis of the capability approach and in trying to accomplish this I shall draw on the thinking in institutional economics. Thus, I expect to create a framework that will serve as a methodological basis for the analysis and evaluation of attempts

by groups of disadvantaged individuals to improve their well-being. Although my analysis will be restricted to capability deprivation as recognised by Sen, my framework need not be restricted to the deprivation of capabilities.

I shall accept the state as given in what follows. This assumption has its shortcomings, since the state can modify institutions or at least intervene so as to improve the institutions that constrain the capabilities of individuals; and I describe one case where it is shown that the government's judicious intervention can be helpful. It is equally possible that deprived individuals form coalitions that can effectively lobby with the government for improvements in institutions. Nevertheless, because of their disadvantage such individuals usually need the support and assistance of external agents, and I discuss how this can be done.

I believe it is equally important to consider the class nature of society. This view is based on the understanding that institutional change is prompted by the class character of society. It is not possible for me to address this question, because I would then have to discuss matters that lie outside my immediate terrain. I do not wish to complicate my arguments by having to take into account such matters as ideology, besides having to deal with the difficulties of defining classes and what they can mean in a diversity of economic situations and geographical locations.

Another criticism that can be levelled against my present study is the lack of any attempt at empiricism. Inviting as the proposal to provide measurable propositions is, I do not believe that the questions that I am attempting to

address require any attempt at measurement, definitely not at this stage when the theoretical framework has not yet been established. Indeed, since the theoretical issues that I unearth are themselves in need of resolution, it is premature and inappropriate to suggest any form of quantification.

## **1.7 CHAPTER FLOW**

Broadly, the structure of my thesis is founded on an elucidation of Sen's capability approach followed by an attempt to locate that approach within an institutional framework. I plan to introduce the capability approach, and then attempt to build the institutionalist framework. The framework that I seek to construct is drawn from the current thinking in institutional economics. Accordingly, after outlining some issues in institutional economics, I shall attempt to elaborate on the specific ways in which some of the central concepts in institutional economics can be used to provide the mechanics for the operationalisation of the capability approach. This will be concluded with two chapters that try to illustrate my conceptual arguments through the use of more concrete examples. The first of these illustrative chapters will be used to elucidate a cognate concept, viz. social exclusion. This will be followed by a chapter that dwells on case studies and attempts to show how the concepts that are used can be related to actual practices in improving capabilities.

In Chapter 1 of this thesis I shall describe the central tenets of Sen's capabilities approach. I shall attempt to outline how Sen seeks to go beyond some of the narrow concerns that engage welfare economics and how Sen tries to incorporate ethical and moral considerations as well as remedy the

informational constraints that limit current thinking on welfare. I shall follow this with an examination of the definition that he offers for the notion of capability. This will be strengthened with some illustrative examples.

Chapter 2 of this thesis will constitute the first step towards recasting Sen's capability approach within the mould of institutional economics. This chapter will review the literature on institutions, drawing out the principal strands within this approach that have a relevance to our problem. Aside from clarifying some of the key concepts that are central to institutional economics and useful to our analysis, I shall explicate the transactions cost approach to institutional economics and the evolutionary approach since the thinking of these schools will be utilised in subsequent chapters. I shall, then, try to argue that there is a link between capabilities and institutions. This chapter lays the foundations for my attempt to construct a framework that places institutions in a focal position for the operationalisation of the capability approach<sup>20</sup>.

Chapter 3 is the first in the sequence of chapters that seeks to develop an appropriate framework that gives due importance to institutions. In this chapter I shall provide an overview of the relevant thinking on institutions and some of the central concepts that define new institutional economics. This is a crucial chapter because it offers the setting within which the capability approach will be extended. Indeed, the use of knowledge and learning and the formation of connections or networks to overcome the lack of capabilities will be defined by the thinking that is characterised by institutional economics. This chapter will,



therefore, be the initial attempt to develop the tools that will subsequently be used to extend Sen's capability approach within the ambit of institutional economics.

In Chapter 4, I shall attempt to proceed on the basis of the institutional framework suggested in the preceding chapter. I expect to do this in two strokes. First, it will be argued that capabilities (or the lack thereof) occur within a specific context. Consequently, there is a need to locate the context within which capabilities can be described and I shall suggest a theoretical means of framing this context. Second, this chapter will seek to propose that an understanding of the contextual limits within which capabilities can be defined can arise only through the mechanics of learning and knowledge. In moving towards a model that emphasises knowledge and learning, an attempt will be made to establish that individuals must know the context in which they operate in the search for capability-improving institutions. This chapter will be concerned with a discussion of the economic space within which institutions function and choices are made. Chapter 4 will try to show how the components of economic space correlate with knowledge and learning regarding institutions since knowledge and learning will lead to capability-improving institutions.

Chapter 5 of my thesis will attempt to detail how path dependence in institutions can be overcome. This chapter will complete the sequence of chapters that develops my proposed framework for capabilities. The logical thread begins with capability-deprived individuals who are confronted with path

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<sup>20</sup> By 'operationalisation' here I mean using the capability framework for policy purposes in an

dependent institutions, and employ the agency of learning to form connections with a view to overcoming the restrictions they face in their capabilities. This chapter shall explain how these connections, supported by models of learning, can assist in the formation of connections so as to overcome path dependent connections.

The purpose of Chapter 6 is to illustrate how the framework that has been constructed up to this point can find meaning in actual practice. This chapter seeks to show how it is possible, at least theoretically, to form connections so as to relax path dependent institutions and bring about capability improvements. The logical thread began with capability-deprived individuals who are confronted with path dependent institutions; and in this chapter I attempt to trace how this can path dependence can be relaxed through the medium of connections. Specifically this is done by employing the agency of learning to form connections with a view to overcoming the restrictions they face in their capabilities. This chapter shall explain how these connections, supported by models of learning, can assist in the formation of connections so as to overcome path dependent connections. I shall attempt to establish in this chapter why connections are necessary and how they can be formed in order to improve the capabilities of deprived individuals.

In Chapter 7, I shall discuss the notion of social exclusion, as an instance of how Sen's approach can be applied more forcefully once equipped within an institutional apparatus. I shall choose this social exclusion because of its links

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institutionally relevant manner; I do not refer to the measurement of capabilities which is an

with Sen's capability approach and also because Sen has discussed the question of social exclusion. I believe that by analysing social exclusion I am showing that my framework has a degree of applicability in so far as it can be used to provide conceptual and policy insight into cognate socio-economic problems. Further, the choice of social exclusion is prompted by the fact that the cases that will be considered in the previous chapter point towards the concept of social exclusion. Since Chapter 7 is concerned with attempts at improving the lot of the excluded, the concept of social exclusion will be analysed using the line of reasoning that will be developed in the preceding chapters.

In Chapter 8, I shall take the goals of the previous chapter further. While Chapter 6 restricts itself to a theoretical explanation of how institutions that are path dependent can be improved through network formation, or the formation of new connections, in Chapter 7, on the other hand, I will try to show that my framework has the potential to expand Sen's approach for analysing non-market attempts at improving capabilities. In this chapter, I propose to demonstrate how recorded instances of efforts to overcome institutional constraints do really fit within the model that I have attempted to build. An attempt will be made to examine several documented cases of such attempts at overcoming institutional constraints through the agency of connections. The case studies that I shall examine will illustrate how my theoretical framework can be used as an explanatory device. The intention of this chapter will be to

demonstrate that a powerful tool of analysis is possible if the capabilities approach is employed from within an institutionalist perspective.

Finally, Chapter 9 offers some concluding remarks. The concluding chapter will review the methodological strengths of the approach that has been used and it will also point out the limitations of the methodology that has been used. Also, I shall suggest the contribution that my thesis offers lies in providing an institutionalist setting for the study of the capability approach. Finally, I shall propose several areas of further research arising either from my inability to cover them within the designated scope of my study, or areas to which my line of thinking can be effectively applied.

## CHAPTER 2

### DEFINING THE CAPABILITY APPROACH

#### 2.1 INTRODUCTION

Sen's thinking has covered diverse areas that include capital theory, social choice theory, project evaluation, welfare economics, inequality, poverty, famines, feminist economics and development<sup>1</sup>. In the midst of all these endeavours one concern stands out: Sen's concern for the deprived. This sensitivity connects many areas of economics on which Sen has worked. In some sense, the capability approach is the blossoming of his multi-faceted interest in economics along with ethics. Philosophy has had long roots of association with economics. Smith and Marx are two such economists, and it is no surprise that both these economists have favourably influenced Sen<sup>2</sup>.

The capability approach takes a long, but interesting route. It stems from Sen's critique of welfare economics and utilitarianism<sup>3</sup>, voices a reluctance to accept income as a measure of well-being<sup>4</sup>, and gathers its strength by developing an approach in its own right. This approach takes goods as the starting point. But goods, Sen argues, are not a complete picture of an individual's well-being. Sen isolates the characteristics in goods<sup>5</sup>, and then, proceeds to claim that individuals are in search of these characteristics. He further draws into his

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<sup>1</sup> An indicative list of the landmark books in these areas include Sen 1960, 1970, 1973, 1985a

<sup>2</sup> Sen's acknowledgement of his respect for Smith and Marx is recorded in Klammer (1989)

<sup>3</sup> See Sen (1973:16) and Sen (1987:29)

<sup>4</sup> See Sen (1990)

toolkit notions of choice and freedom, taking care to be sympathetic to the deprived, who, after long periods of deprivation and misery, come to accept their condition<sup>6</sup>. The deprived, as Sen clearly understands, have an outlook and self-assessment of well-being and contentment that has been shaped by their prolonged state of scarcity. Sen shifts his tilt against resources and favours the choices and opportunities that individuals have<sup>7</sup>. Resources do not always guarantee well-being. Sen argues that it is also necessary to look at the ways in which resources can or cannot be used to deliver a better state of well-being.

Sen's capability approach has interested many scholars, and the range of interest has spanned across many areas. I would argue that the applicability of Sen's approach has not been as fully utilised as it could be. Sen's capability approach will see greater use if it is applied more vigorously or if it is cross-fertilised with other theories. Of particular interest to me is how the capability approach can be employed within development economics. I think that for such a project to be successful the approach must be situated within the context of a social framework and the element of participation within a structure of social relationships has to be teased out. But these are issues that I can only broach on presently, allowing a more detailed treatment to be developed in subsequent chapters.

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<sup>5</sup> In doing this, Sen is pursuing the lead taken by Lancaster (1966), who isolates the characteristics embedded in goods that individuals demand.

<sup>6</sup> The issue of 'adaptation' to deprivation is important to Sen because it arises not out of the willing choice to do without certain goods, but because of the acceptance of one's deprived position, or rather a forced submission to one's state of deprivation.

<sup>7</sup> It is pertinent to note that Sen (1990, for example) perceives of resources, as well as income, as being means to freedom. This position is well-articulated when Sen (2000:70) states that we "use incomes and commodities as the material basis of our well-being."

My intention in this chapter is to introduce some of the main elements of Sen's capability approach. I shall first discuss some reasons why Sen must have been uncomfortable with traditional welfare economics. I shall, then, attempt to offer an understanding of the concepts that are crucial to the Sen's capability approach. This will be followed by a review of some of the criticism that have been levelled against Sen's account of the capability approach. Subsequently, I shall consider the claim that Sen's approach can be a framework of thought. Finally, I shall offer some concluding remarks.

## **2.2 BEYOND WELFARE ECONOMICS**

The advent of the capability approach owes much to Sen's dissatisfaction with traditional welfare economics and his desire to pursue the broader issues of welfare as enunciated by Smith<sup>8</sup>. Sen's critique of welfare economics and his intention of going beyond this discipline are closely tied with his aim of providing a solution to Smithian notions of well-being and welfare. At the root of Sen's uneasiness with welfare economics is his problematic with utilitarianism.

The utilitarian approach, in Sen's (1985b:175) view can be decomposed into three elements. The first of these elements is act consequentialism. Let us assume that a decision to pursue a particular policy prescription is taken. This decision results in a specific state. Other policy prescriptions would result in other social states. Act consequentialism implies that a decision is evaluated in terms of the state that follows the decision taken. It, therefore, follows that